

FILED UNDER SEAL PURSUANT TO PROTECTIVE ORDER
CONTAINS RESTRICTED AND CONFIDENTIAL INFORMATION

Before the
LIBRARY OF CONGRESS
COPYRIGHT OFFICE
Washington, D.C.

[GENERAL COUNSEL
OF COPYRIGHT]

JAN 16 1997

RECEIVED

In the Matter of)	
)	
Statutory License Terms and)	Docket No. 96-5
Rates for Certain)	CARP DSTRA
Digital Subscription)	
Transmission of Sound)	
Recordings)	
_____)	

DMX INC.'S REPLY TO RIAA'S OPPOSITION TO DMX INC.'S
MOTION TO COMPEL RESPONSES TO FOLLOW-UP REQUESTS

DMX Inc. ("DMX"), by its attorneys, hereby replies to the January 8, 1997 Opposition of the Recording Industry Association of America ("RIAA") to DMX's Motion to Compel RIAA to Produce Documents in Response to the Follow-Up Request for Underlying Documents of DMX and Muzak LP.

I. INTRODUCTION

By its Motion and this Reply, DMX seeks to compel the production of documents underlying the testimony of Larry Gerbrandt. Mr. Gerbrandt, Senior Vice President of Paul Kagan Associates, Inc. ("PKA"), is the principal witness supporting RIAA's request that the Panel adopt the confiscatory royalty rate of 41.5% of the Subscription Services' gross revenues from domestic residential sales. RIAA, however, refuses to produce the underlying data that contributed to this bottom-line figure.

II. BACKGROUND

In response to the Subscription Services' December 5, 1996 joint discovery requests for documents supporting Mr. Gerbrandt's testimony, RIAA produced about 60 pages of excerpts from various PKA publications and databases, nearly all of which reflect PKA "estimates." DMX's December 17, 1996 Follow-Up Request Nos. 3 to 9 requested the underlying documents and source data that contributed to, supported and/or verified the figures set forth in the documents produced by RIAA relating to Mr. Gerbrandt's testimony.

RIAA refuses to produce any further underlying data, arguing that: (1) it has fulfilled the requirements of the Copyright Office's November 27, 1996 Order because it already produced every document upon which Mr. Gerbrandt relied when preparing Exhibit 14 to his testimony, and (2) the PKA "estimates" cannot be traced to specific source documents. RIAA Opposition to Motions to Compel, at 2-3 (Jan. 8, 1997).

III. ARGUMENT

RIAA's position that it (1) need not and (2) cannot produce underlying data to support the PKA estimates in Mr. Gerbrandt's testimony is belied by the explanation contained in its Opposition and the face of the documents RIAA produced.

First, RIAA's responses to discovery do not comply fully with the requirements of the November 27, 1996 Copyright Office Order that, "[p]arties who offer bottom-line figures in a CARP

proceeding must be prepared to share all of the underlying data that contributed to those bottom-line figures, so that the figures may be verified." Order at 6-7 (emphasis added). With respect to the documents on which Mr. Gerbrandt relied in preparing Exhibit 14, the Order specifically provided that "all bottom line figures must be verified, and the Subscription Services are entitled to the underlying documents that support the figures provided in tables 1-4 and Appendix A of Exhibit 14." Id. at 15. RIAA's response does not come close to satisfying these requirements.

RIAA refuses to produce any, let alone all, underlying documents, or otherwise to verify bottom-line figures. RIAA offers only more of the same PKA estimates (albeit sometimes in different format) to support the PKA estimates provided in Tables 1 to 4 and Appendix A of Exhibit 14. For example, to support the program license fees set forth in Table 2, RIAA produced a sheet of loose paper setting forth, in a single line, PKA estimates of "license fees to syndicators" for the years 1990 through 1995. Compare RIAA Ex. 14, at 9, Table 2 (providing PKA estimates of program license fees for 1990-95) with RIAA Bates No. 0210 (attached as Exhibit A hereto) (providing the same PKA estimates of license fees). Similarly, to support the PKA estimates provided in Table 3 to Exhibit 14, titled "PROGRAM EXPENSES AS A PERCENTAGE OF TOTAL REVENUES: Networks Which Acquire Majority of Programming From Outside Sources," RIAA produced two tables on a single sheet of loose paper similarly titled, "PROGRAM EXPENSES

AS A PERCENTAGE OF GROSS REVENUES--NETWORKS ACQUIRING PROGRAMMING FROM OUTSIDE SOURCES." Compare RIAA Ex. 14, at 10, Table 3 (estimates presented as percentages) with RIAA Bates No. 0207 (attached as Exhibit B hereto) (estimates provided separately as gross revenues and programming/production expenses in dollars, without the calculation that resulted in the percentages in Table 3).

RIAA's production of PKA estimates to support the PKA estimates provided in the testimony of Mr. Gerbrandt, a PKA Senior Vice President, is akin to saying, "it's true because I say so." The PKA estimates are not self-authenticating. The PKA estimates produced in no way "verify" the bottom-line figures and estimates Mr. Gerbrandt relies upon, nor provide any meaningful basis to support the validity or reliability of the previously provided PKA estimates.¹

Second, several of the trade newsletters that RIAA produced expressly state that the PKA estimates contained therein are based on Viacom data, Time Warner data, company financial reports, and company data. E.g., The Pay TV Newsletter and Cable Network Investor excerpts produced bearing Bates Nos. RIAA 0193 to 0205, attached as Exhibit C hereto. At the very least, RIAA

¹ RIAA's argument that DMX likewise produced documents that are the product of professional judgment, citing the production of financial statements prepared by outside auditors, is unpersuasive. See RIAA's Opposition at 4 n.1. First, these financial statements were prepared and verified by outside sources other than DMX according to Generally Accepted Auditing Standards of the auditing profession. Second, DMX also produced several hundred pages of additional financial documents in further support of its testimony.

should be compelled to produce the cited Viacom data, Time Warner data, company financial reports, and company data. Moreover, RIAA's Opposition, at pages 3-4, admits that the PKA "estimates" are based on "financial statements and trade publications, consulting with industry executives, and attending seminars and meetings about the media industry," as well as financial information from the networks or their parents, and other outside sources. Nevertheless, RIAA has produced only the resulting bottom-line "estimates." RIAA completely refuses to produce any of the outside source documents upon which the PKA estimates are based, nor any of PKA's internal memoranda which memorialize, summarize, or analyze such information or documents. RIAA should be compelled to do so.

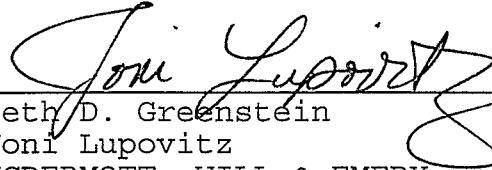
DMX is entitled to the underlying documents that verify and support the figures and "estimates" that Mr. Gerbrandt relied upon. RIAA's wholesale refusal to produce any underlying documents (except more PKA estimates) to support Mr. Gerbrandt's bottom-line estimates is untenable.²

For the foregoing reasons, DMX's December 27, 1996 Motion to Compel Responses to Follow-Up Request Nos. 3 to 9 should be granted and RIAA should be compelled to produce source documents to verify and support the PKA estimates. Alternatively, all

² Apparently RIAA believes that what's good for the goose is not always good for the gander. While RIAA moved to strike certain DMX testimony on the basis of DMX's slight delay in producing recently discovered financial documents, RIAA apparently thinks that its wilfull refusal to produce responsive documents merits no recourse.

references in Mr. Gerbrandt's testimony to figures based on PKA estimates should be stricken.

Respectfully submitted,

A handwritten signature in cursive script, reading "Joni Lupovitz", is written over a horizontal line.

Seth D. Greenstein
Joni Lupovitz
MCDERMOTT, WILL & EMERY
1850 K Street, N.W.
Suite 500
Washington, D.C. 20006
(202) 887-8000

Counsel for DMX INC.

Date: January 15, 1997

\\27238\\010\\ARB\\50REPJON.001

BASIC CABLE NETWORK ECONOMICS

		1990	1991	1992	1993	1994	1995
License fees to syndicators	(mil.)\$	776	936	1,029	1,153	1,305	1,377

c1995 Paul Kagan Associates, Inc. estimates.

PROGRAM EXPENSES AS A PERCENTAGE OF GROSS REVENUES--NETWORKS ACQUIRING PROGRAMMING FROM OUTSIDE SOURCES

	Gross Revenues						Programming/Production Expenses					
	1990 (\$mil.)	1991 (\$mil.)	1992 (\$mil.)	1993 (\$mil.)	1994 (\$mil.)	1995 (\$mil.)	1990 (\$mil.)	1991 (\$mil.)	1992 (\$mil.)	1993 (\$mil.)	1994 (\$mil.)	1995 (\$mil.)
A&E	93.6	120.6	138.5	184.5	217.0	257.8	38.4	50.6	59.8	52.3	67.3	75.9
DISC	78.0	106.5	155.8	194.9	234.5	277.1	38.0	52.0	76.0	100.0	112.0	115.0
FAM	108.9	126.2	143.5	169.4	183.9	218.0	37.5	47.0	54.5	66.5	71.5	75.7
LIFE	145.1	172.5	199.1	216.6	264.9	298.8	77.0	77.0	95.0	83.4	98.5	113.6
NICK	137.0	173.0	213.0	284.4	347.5	394.8	57.6	65.0	80.0	95.0	110.0	118.0
NOST	8.3	10.3	12.5	13.0	13.5	15.1	3.6	2.6	2.1	5.7	7.0	5.8
SCIFI	N/A	N/A	N/A	12.0	30.0	50.0	N/A	N/A	N/A	35.0	35.0	40.0
TBS	276.3	287.0	301.8	339.8	356.0	339.8	91.0	105.0	105.0	135.0	143.0	155.0
TLC	15.0	19.9	24.4	29.6	42.9	67.2	2.7	6.4	10.0	22.0	29.0	39.0
TNT	316.2	369.9	423.0	506.3	542.2	628.3	215.0	240.0	275.0	325.0	420.0	355.0
TOON	N/A	N/A	N/A	12.0	30.9	48.0	N/A	N/A	N/A	3.0	6.0	8.0
USA	299.0	344.0	403.0	420.0	475.0	550.0	135.0	195.0	225.0	210.0	240.0	260.0
Total	1,477.4	1,729.9	2,014.6	2,382.5	2,738.3	3,144.9	695.8	840.6	982.4	1,132.9	1,339.3	1,361.0

Copyright 1996 Paul Kagan Associates, Inc. estimates.

o Cox Communications reported slightly lower premium service revenues and higher PPV revenues for the fourth quarter and year ended Dec. 31, 1995.

On a pro forma basis (reflecting financial results as if the MSO's Times Mirror acquisition had occurred at the beginning of 1994), premium service revenues decreased 8% for 4Q, to \$46.9 mil. from \$50.8 mil. in 4Q '94, and 6% for the year, to \$190.4 mil. from \$201.8 mil. in '94.

Cox said the declines reflected the January 1995 conversion of The Disney Channel from a premium service to a cable programming services tier.

PPV revenues fared better for the MSO, rising 3% in the 4Q to \$9.8 mil. from \$9.5 mil. in 4Q '94, and 14% to \$43.9 mil. for the year, from \$38.4 mil. in '94, on a pro forma basis.

Premium service units totaled 1.827 mil. at Dec. 31, 1995, representing 56.2% penetration of 3.249 mil. basic subscribers.

Against an estimated 1.831 mil. average units in 4Q '95, the \$46.9 mil. in 4Q premium service revenues imply the average unit generated \$25.64 for the quarter, or \$8.55 per month.

o Turner Broadcasting said World Championship Wrestling revenues from syndication and PPV rose by \$5 mil. in the fourth quarter ended Dec. 31, 1995, compared with 4Q '94.

o Viacom broke out financial information for the Showtime Networks division, which includes Showtime, The Movie Channel and Flix:

		----4Q ended Dec. 31----			---Year ended Dec. 31---		
		1994	1995	% Gain	1994	1995	% Gain
Revenues	(mil.)	\$149.0	\$165.5	11%	\$589.2	\$622.1	6%
Cash flow	(mil.)	\$ 12.4	\$ 25.6	106%	\$ 52.6	\$ 75.8	44%
C.F. margin		8.3%	15.5%	--	8.9%	12.2%	--

o 1996 Paul Kagan Associates, Inc. from Viacom data. All rights reserved.

Viacom said Showtime/TMC/Flix subscribers increased almost 10% from 13.5 mil. at year-end '94 to 14.8 mil. at year-end '95.

That works out to \$44.12 per sub in '95 revenues against an estimated average 14.1 mil. subs, or \$3.68/sub/month.

o Time Warner broke out financial information for the HBO division, which includes HBO and Cinemax:

		----4Q ended Dec. 31----			---Year ended Dec. 31---		
		1994	1995	% Gain	1994	1995	% Gain
Revenues	(mil.)	\$391	\$412	5%	\$1,513	\$1,607	6%
Cash flow	(mil.)	\$ 63	\$ 73	16%	\$ 257	\$ 293	14%
C.F. margin		16.1%	17.7%	--	17.0%	18.2%	--

o 1996 Paul Kagan Assoc., Inc. from Time Warner data. All rights reserved.

Time Warner said HBO/Cinemax subs increased 10% from 27.0 mil. at year-end '94 to 29.7 mil. at year-end '95.

That translates to \$56.78 per sub in '95 revenues against an estimated average 28.3 mil. subs, or \$4.73/sub/month.

In summary, Showtime and HBO substantially improved their bottom lines in '95, with cash flow growth outpacing revenue and subscriber gains.

1ST QUARTER SNAPSHOT: HOLDING STEADY**CONFIDENTIAL**

Revenues and cash flow margins were up in the first quarter of 1993 at both HBO and Showtime divisions, but the results reinforce the reality that pay TV in the 1990s is a single-digit growth business.

The first quarter also included results of a first-time joint marketing campaign between HBO and Showtime that grew out of last year's settlement of an antitrust case between the two services.

The \$3.8 mil. resulted in 332,500 leads at a cost of \$10.82 per lead. Though the final results are still being tabulated, it appears Showtime wound up with the biggest gains in the quarter, up approximately 200K units and with HBO flat to marginally up.

The campaign continued in March-April, with 32 mil. direct mail pieces and a direct response TV ad blitz designed to reach 50% of U.S. TV households.

HBO's revenue increases in the quarter (detailed below) came primarily as a result of rate increases and continuing growth from its TV production operations, with cash flow gains coming from reduced losses at Comedy Central.

Showtime showed the larger percentage gains (it is also coming from a smaller base), as its total pay universe grew from 10.7 mil. at year-end to 10.9 mil. units at 3/31, along with growing revenues at its consolidated Viacom Pictures production house.

Showtime has been aggressively pursuing price restructuring strategies and its revenue results reflect: in the last 12 months Showtime is up approximately 800K units, nearly an 8% increase, but revenue is up about 7%.

HOME BOX OFFICE DIVISION

	-----Year Ended 12/31-----					---1st qtr.---		% chg.
	1988	1989	1990	1991	1992	1992	1993	92-93
Revenue	\$1,122	\$1,177	\$1,266	\$1,366	\$1,444	\$351	\$359	2.3%
Expenses	1,004	1,011	1,084	1,171	1,229	299	304	1.7%
EBITDA	118	166	182	195	215	52	55	5.8%
C.F. margin	10.5%	14.1%	14.4%	14.3%	14.9%	14.8%	15.3%	---

SHOWTIME NETWORKS INC. DIVISION

	-----Year Ended 12/31-----					--1st qtr.--		% chg.
	1988	1989	1990	1991	1992	1992	1993	91-92
Revenue	\$420	\$470	\$494	\$501	\$515	\$127	\$136	6.9%
Expenses	425	462	462	460	470	114	122	6.5%
EBITDA	(5)	8	33	42	45	13	14	11.2%
C.F. margin	---	1.6%	6.6%	8.3%	8.7%	9.9%	10.3%	---

© 1993 Paul Kagan Associates, Inc. analysis of company financial reports.

Pay TV activity a year from now could be substantially higher, if for no other reason than cable operators are now re-motivated to push non-regulated pay services to offset the severe cash flow hit imposed by FCC-mandated basic rate rollbacks.

With the incumbents already heavily marketed, however, operators may turn their attention to pushing lower-priced minipay services or new niche pay program ideas, such as The Golf Channel or The Sega Channel.

PLAYBOY: RESPECTABILITY, FINANCIALLY AND OTHERWISE**CONFIDENTIAL**

In the age of Madonna (and her best-selling hit *Sex*, from Time Warner Books), the Playboy brand name and image seem almost tame in contrast.

After more than a decade fighting MSOs and local objections to its well-marketed brand name, Playboy is finally finding success as a pay-per-view service--with carriage in over 7.6 mil. homes and counting (ranking it third, behind Viewer's Choice and Request TV).

A breakdown of Playboy's entertainment division financials shows that, by the end of 1993, Playboy's PPV service will likely eclipse traditional subscription TV as the division's top revenue producer.

And with the publishing business still in the grips of the ad recession, the company is focusing on entertainment as its chief vehicle for growth. Like HBO, Playboy is particularly enthusiastic about its international prospects, with plans on the drawing board for a "mini" Playboy Channel and pay tiers in various European and Far East markets. It already has co-venture arrangements with companies such as Berlusconi, RTL and Canal+. And although Playboy is a much smaller business than HBO, its 1992 cash-flow margin of 14.8% (before headquarters' moving expenses) is nearly identical to HBO's.

PLAYBOY ENTERTAINMENT GROUP				% chg.
	1990	1991	1992	91-92
Domestic pay-per-view	\$ 1.9	\$ 3.8	\$ 6.0	57.9%
Domestic subscription TV	13.7	11.4	9.9	(13.2)
Backyard dish/hotel/motel/SMATV	2.2	2.6	2.6	0.0
Total domestic pay TV	\$17.8	\$17.8	\$18.5	3.9%
Domestic home video	\$ 1.5	\$ 2.7	\$ 7.0	159.3%
International	4.0	3.5	5.4	54.3
Other	2.5	1.0	1.6	60.0
TOTAL ENTERTAINMENT REVENUES	\$25.8	\$25.0	\$32.5	30.0%
Prog. amortization expense	\$10.2	\$ 7.9	\$ 9.0	13.9%
Operating expenses	12.7	14.2	18.7	31.7
Operating income	2.9	2.9	4.8	65.5
Move expenses	--	--	(1.1)	--
Operating income after move	2.9	2.9	3.7	27.6
Cash flow margin (before move)	11.2%	11.6%	14.8%	--

All dollars in millions. © 1992 Paul Kagan Associates, Inc.
analysis of company financial reports.

The Playboy Channel's traditional subscription TV business has been holding steady at 300K units. With 1992 subscription revenues of \$9.9 mil., the channel's wholesale rate is averaging \$2.75/mo.

It is Playboy's PPV channel, however, that is clearly moving into center stage. Since converting to a pay-per-evening format, PPV revenues have more than tripled between 1990 and 1992.

In many markets, adult-oriented programming is generating higher buy-rates (on a per-channel basis) than many mainstream movie channels (which reinforces the plans of Viewer's Choice for its VC II channel, p. 4).

SET CANCELS CHAVEZ VS. HAUGEN

HBO and Viacom have settled their antitrust lawsuit and are partners in Comedy Central--but they still don't see eye-to-eye on most issues, including scheduling. Showtime Event TV/KingVision cancelled its Dec. 5 PPV fight card topped by Julio Cesar Chavez vs. Greg Haugen (it may be rescheduled for Jan.), when HBO would not reschedule its own premium service fight card for the same night. The fight had already been moved from Dec. 4, to avoid conflict with PolyGram's Diana Ross PPV concert.

PAY NETWORK ECONOMICS: STILL A SINGLE-DIGIT WORLD

CONFIDENTIAL

The bottom lines of the two major pay TV companies (HBO and Showtime Networks) continue to improve, but not as a result of the traditional domestic premium TV business.

Both companies are benefitting from the switch from General Instrument's failed VideoCipher II backyard dish scrambling system to the more secure VC Renewable Security system, and from the arrival last May of multiplexing backyard feeds.

HBO TVRO subs are up 11% since May, and HBO has added 100K backyard pay units in the last four weeks alone, since GI closed the VCII data stream.

Showtime reports a similar pickup in activity; but it has noted the financial impact is being diluted by an HBO marketing decision to offer half-price subscriptions in an effort to increase share in the post-VCII market.

The entire HBO division is on track to generate some \$212 mil.-\$215 mil. in cash flow this year (before facing the one-time charge arising from settlement of the antitrust lawsuit with Viacom).

The division is absorbing a \$40 mil. P&L hit as a result of startup costs from the Comedy Channel (breakeven expected in 1994), HBO Ole (B/E in 1993) and the HBO Singapore venture.

HBO margins through the first nine months of the year are almost identical to 1991's, although expenses have been running ahead of revenues (largely as a result of the startups).

HOME BOX OFFICE DIVISION

	----Year Ended 12/31----				-1992 by quarter-			---9 mo.---		% chg.
	1988	1989	1990	1991	1st	2nd	3rd	1991	1992	91-92
Revenue	\$1,122	\$1,177	\$1,266	\$1,366	\$351	\$363	\$385	\$1,007	\$1,099	9.1%
Expenses	1,004	1,011	1,084	1,171	299	310	331	859	940	9.4
EBITDA	118	166	182	195	52	53	54	148	159	7.4
C.F. margin	10.5%	14.1%	14.4%	14.3%	14.8%	14.6%	14.0%	14.7%	14.5%	---

SHOWTIME NETWORKS INC. DIVISION

	----Year Ended 12/31----				-1992 by quarter-			---9 mo.---		% chg.
	1988	1989	1990	1991	1st	2nd	3rd	1991	1992	91-92
Revenue	\$420	\$470	\$494	\$501	\$127	\$128	\$128	\$377	\$383	1.6%
Expenses	425	462	462	460	114	113	118	342	345	0.8
EBITDA	(5)	8	33	42	13	16	10	35	38	9.6
C.F. margin	---	1.6%	6.6%	8.3%	9.9%	12.1%	7.7%	9.2%	9.9%	---

Mil. \$. © 1992 Paul Kagan Assoc., Inc. analysis of company financial reports.

Compared with HBO's financials, Showtime's include just the domestic pay TV and PPV businesses and therefore are much more reflective of the marketplace--which is flat. Through nine months, SNI revenues are up only 1.6%.

Although Showtime/TMC's combined sub count is up 300K units (2.8% to 10.5 mil.), many new subscriptions are a result of price restructuring, which means revenue per unit is lower.

Cash flow from the division will probably wind up the year at about \$40 mil.-\$45 mil.--with a full 25% of earnings coming directly from the backyard TVRO market.

PAY NETWORK BOTTOM LINES IMPROVED IN 1992

CONFIDENTIAL

Both Showtime and Home Box Office wound up with record revenues and profit margins in 1992, despite small net subscriber growth. Cash flow growth was up 9% and 10%, respectively.

The keys to each division's financial gains--respectable in a low-inflation, recession-ravaged year--were similar:

- o Some subscriber gains coupled with small rate increases;
- o Expenses growing at a slower rate than revenues;
- o Revenue contributions from non-pay and international businesses.

The other, less obvious key is that neither HBO nor Showtime has wanted to engage in bidding wars for programming.

In fact, in retrospect, their willingness to refuse MCA/Universal's demands two years ago and watch that product bypass the pay window stands out as a turning point in pay network economics.

License fees for movies are likely to remain flat or even come down--especially as pay-per-view begins to eat into the traditional pay business--with more of the program budgets going to original fare (see P. 1).

HOME BOX OFFICE DIVISION

	-----Year Ended 12/31-----					----1992 by quarter----				% Chg.
	1988	1989	1990	1991	1992	1st	2nd	3rd	4th	91-92
Revenue	\$1,122	\$1,177	\$1,266	\$1,366	\$1,444	\$351	\$363	\$385	\$385	5.7%
Expenses	1,004	1,011	1,084	1,171	1,229	299	310	331	331	5.0%
EBITDA*	118	166	182	195	215	52	53	54	54	10.3%
C.F. mgn.	10.5%	14.1%	14.4%	14.3%	14.9%	14.8%	14.6%	14.0%	14.0%	---

SHOWTIME NETWORKS INC. DIVISION

	-----Year Ended 12/31-----					----1992 by quarter----				% Chg.
	1988	1989	1990	1991	1992	1st	2nd	3rd	4th	91-92
Revenue	\$420	\$470	\$494	\$501	\$515	\$127	\$128	\$128	\$133	2.8%
Expenses	425	462	462	460	470	114	113	118	125	2.3%
EBITDA*	(5)	8	33	42	45	13	16	10	8	8.6%
C.F. mgn.	---	1.6%	6.6%	8.3%	8.8%	9.9%	12.1%	7.7%	5.7%	---

* EBITDA = Earnings before interest, taxes, depreciation & amortization, also known as "media cash flow".

© 1993 Paul Kagan Associates, Inc. analysis of company financial reports.

Both operations reported overall subscriber increases, thanks largely to improved security in the backyard TVRO business. HBO/Cinemax claimed a 100K unit gain (from 23.6 mil. to 23.7 mil.), while Showtime/TMC said combined units went from 10.2 mil. to 10.7 mil., up 500K.

Assuming about 80% of the HBO division revenues come from traditional pay TV activity, it looks as if the average wholesale rate was around \$4.07/pay unit/mo.; higher for HBO and lower for Cinemax.

Doing the same calculation for Showtime (assuming 95% of revenues come from pay TV), the average rate works out to \$3.90/pay unit/mo.

CONFIDENTIAL

HARD-CHARGING PLAYBOY SHARES TAKE A BREATHER

Playboy Enterprises' Aug. 1 release of results for the fiscal year ended June 30, 1996, didn't budge PLA shares from their holding pattern.

The stock hasn't closed at more than \$14, nor less than \$13, since finishing at \$14.38 on July 12. Still, its \$13.25 close Aug. 12 was 77% above a \$7.50 bottom hit in January '96.

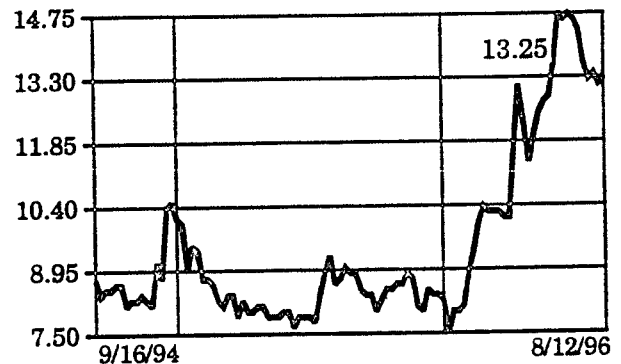
Playboy's pay TV and pay-per-view (PPV) operations were among the stars in a fiscal fourth quarter for which the company reported a 14% rise in total net revenues to \$76.45 mil. and a 41% spurt in total operating income to \$3.36 mil. versus 4Q 1995.

An 88% leap in direct broadcast satellite (DBS) revenues, plus licensing revenues from the sale of the series *Women to pay* network Showtime, sparked a 31% gain in Playboy Television's domestic net sales in 4Q '96.

Playboy TV domestic revenues climbed to \$10.7 mil. from \$8.2 mil. in 4Q '95. For fiscal year '96, sales increased 36% to \$39.3 mil. from \$28.9 mil. in FY '95.

The satellite market's share of total Playboy TV domestic revenues jumped from 35% in FY '95 to 55% in 4Q '96. Cable PPV revenue share tumbled from 41% to 30% and cable monthly subscriptions from 24% to 15% (see below).

Playboy Enterprises



PLAYBOY TELEVISION DOMESTIC NET REVENUES (\$ in mil.)

	--4th Qtr. ended June 30--				----Year ended June 30----			
	--Revenue--		% of Total		---Revenue--		% of Total	
	1995	1996	1995	1996	1995	1996	1995	1996
Cable PPV	\$3.3	\$ 3.2	40%	30%	\$11.9	\$14.3	41%	36%
Cable mo. subscr.	1.7	1.6	21	15	7.0	6.9	24	18
Satellite/other	3.2	5.9	39	55	10.0	18.1	35	46
Total	\$8.2	\$10.7	100%	100%	\$28.9	\$39.3	100%	100%

© 1996 Paul Kagan Assoc., Inc. analysis from co. data. All rights reserved.

At June 30, 1996, Playboy TV was available in 11.3 mil. U.S. cable addressable households, of which 3.9 mil. (35%) had access to the service 24 hours/day. The 11.3 mil. total grew 7% from 10.6 mil. at June 30, 1995.

Playboy TV monthly cable subscriptions declined 5% from 201K at June 30, 1995 to 192K at June 30, 1996.

One-year-old PPV channel AdultTVision netted \$575K in 4Q '96 revenues and \$1.91 mil. for FY '96. Last May, Playboy said it expects AdultTVision to break even in fiscal 1997.

Net revenues at the company's international TV/home video operation soared 30% to \$7.72 mil. in 4Q '96. Domestic home video revenues went 30% in the opposite direction, slipping to \$2.1 mil.

On July 23, Playboy and Showtime followed their *Women* licensing pact with another deal. Playboy obtained international distribution rights to 48 completed episodes and 18 newly ordered installments of *Red Shoe Diaries*, Zalman King's erotic series that airs late night on Showtime.

Playboy, Showtime and Zalman King Entertainment will co-finance the 18 new episodes, which will continue to run on Showtime domestically.

The new numbers, which break out results into movie services, entertainment/information systems, electronic retailing, satellite and broadcasting, sports services and corporate/other, will be easier for the market to digest, simplifying Liberty's labyrinthine asset holdings (CNI #53, 7/11/96).

Liberty's 2Q '96 results reflected a 17% revenue growth to \$543 mil. and a 129% jump in consolidated cash flow to \$71 mil.

Electronic retail sales, spurred by double-digit boosts at HSN and QVC, rose 12% to \$274 mil. with a 75% leap in cash flow to \$35 mil. Both figures account for nearly half the consolidated total (>>>).

In the future, though, the dominance of electronic retailing could shift in favor of satellite/broadcasting if SKTV chmn. Barry Diller finalizes his near-\$1.3 bil. purchase of HSN (see P. 2).

LBTYA closed at \$26.25/sh. September 9, 61% of an estimated PMV of \$43.02/share. The sheer pace of recent deals in which Liberty has had a hand could help bring hesitant buyers back into cablenet stocks.

CHANGING WEATHER? UVSGA NIXES VENTURE WITH NEWS CORP./TV GUIDE

Hopes for a unified TV Guide onscreen service were dashed Aug. 26 when United Video Satellite Group and News Corp. officials abandoned their \$350 mil. 50:50 jv two months to the day after its announced formation, but the purchase of a Canadian weather service could open new lines of growth at UVSG.

In a conference call, UVSG execs said the dual issues of governance and intellectual property rights converged to sink the proposed deal. UVSGA shares have slipped 19.4% from their April 19 high of \$24.50/sh. to close at \$19.75/sh. Sept. 9 (>>>).

The deal collapsed under both sides' insistence the venture be consolidated--which allows the reporting of 100% of revenue and op. income even on partially-owned ventures.

News Corp. mgmt. was unwilling to allow UVSG to consolidate the jv because it would have given UVSG one more seat on the board, relegating News Corp. to junior-partner status.

Nor did either side's perceptions match regarding the value of the TV Guide brand name since News Corp. doesn't own worldwide rights to the name as Prevue does with its own. The News Corp. team insisted the brand name's strength in national ad sales would more than compensate.

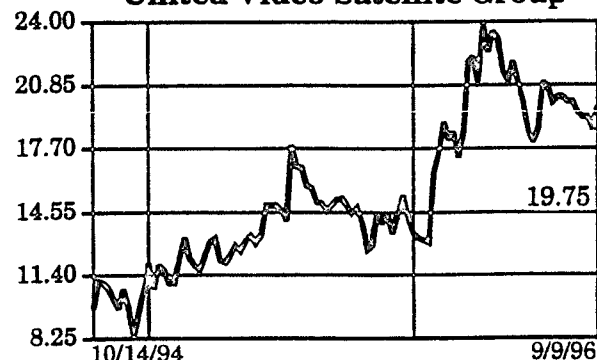
LIBERTY MEDIA FINANCIALS

Revenue	6/30/95	6/30/96	% Chg.
Movie Services	\$ 22	\$ 40	82%
Ent./Info Service	71	93	31
Electronic Retail	244	274	12
Sat. & Bcst.	48	54	13
Sports Services	79	82	4
Corporate/Other	0	0	--
Total	\$464	\$543	17%

Cash Flow	6/30/95	6/30/96	% Chg.
Movie Services	\$(5)	\$(4)	(20%)
Ent./Info Service	9	21	133
Electronic Retail	20	35	75
Sat. & Bcst.	8	12	50
Sports Services	(2)	9	(550)
Corporate/Other	1	(2)	(300)
Total	\$31	\$71	129%

All \$ in mil. © 1996 Paul Kagan Associates, Inc. from company data. All rights reserved.

United Video Satellite Group



(continued on next page)

HBO, SHOWTIME POST DOUBLE-DIGIT CASH FLOW GROWTH

HBO and Showtime continue to beef up their bottom lines, aided by intensive marketing support from DBS providers spending millions of their own dollars to promote multiplexed premium TV packages.

Revenues rose 15% and cash flow 16% in the second quarter ended June 30, 1996, vs. 2Q 1995 at Time Warner's Home Box Office division (HBO and Cinemax). That pushed the cash flow margin to more than 19%.

Meanwhile, Viacom's Showtime Networks unit (Showtime, The Movie Channel and Flix) boosted cash flow 33% between 2Q '95 and 2Q '96.

HOME BOX OFFICE (HBO/CINEMAX) FINANCIALS

		-2nd Qtr. ended June 30-			-Six Mos. ended June 30-		
		1995	1996	% Gain	1995	1996	% Gain
Revenues	(mil.)	\$396	\$456	15.2%	\$786	\$875	11.3%
Cash flow	(mil.)	\$ 75	\$ 87	16.0%	\$146	\$168	15.1%
C.f. margin		18.9%	19.1%	---	18.6%	19.2%	---

SHOWTIME NETWORKS (SHOWTIME/TMC/FLIX) FINANCIALS

		--2nd Qtr. ended June 30--			--Six Mos. ended June 30--		
		1995	1996	% Gain	1995	1996	% Gain
Revenues	(mil.)	\$152.5	\$165.4	8.2%	\$300.8	\$327.5	8.9%
Cash flow	(mil.)	\$ 12.5	\$ 16.6	32.8%	\$ 27.1	\$ 37.2	37.3%
C.f. margin		8.2%	10.0%	---	9.0%	11.4%	---

HBO + SHOWTIME AND HBO vs. SHOWTIME

		-2Q ended June 30-		Six Mos. ended June 30	
		1995	1996	1995	1996
Combined revenues	(mil.)	\$548.5	\$621.4	\$1,086.8	\$1,202.5
Combined cash flow	(mil.)	\$ 87.5	\$103.6	\$ 173.1	\$ 205.2
Combined margin		16.0%	16.7%	15.9%	17.1%
HBO revenue share		72.2%	73.4%	72.3%	72.8%
SHO revenue share		27.8%	26.6%	27.7%	27.2%
HBO c.f. share		85.7%	84.0%	84.3%	81.9%
SHO c.f. share		14.3%	16.0%	15.7%	18.1%

© 1996 Paul Kagan Associates, Inc. est. from co. data. All rights reserved.

A stunning 96% (932K) of 972K net new subs added by Showtime Networks during the 12 months ended June 30, 1996, came via DBS and other satellite providers, Viacom officials told analysts in a July 31 conference call.

Total Showtime/TMC/Flix subscriptions rose 7% from 14.2 mil. at June 30, 1995 to 15.2 mil. at June 30, 1996.

The Showtime division netted \$3.64 per sub per month against an estimated 15.15 mil. average subs in 2Q '96--unchanged from \$3.64 against an est. 13.95 mil. average subs in 2Q '95.

HBO/MAX counts more than twice as many subscriptions as SHO/TMC/FLIX, but the Time Warner division generates almost three times more revenue and four-to-five times more cash flow than the Viacom unit.

HBO accounts for more than 70% of HBO's and Showtime's combined revenues and more than 80% of combined EBITDA (earnings before interest, taxes, depreciation and amortization), as shown in the above analysis.

So far this year, HBO has increased its revenue share advantage while Showtime has cut into HBO's cash flow lead.

D-B-S SPELLS DARNED BRISK SALES FOR PLAYBOY TV

Playboy Enterprises credited an 88% leap in DBS revenues--plus licensing revenues from the sale of the series *Women to Showtime*---for a 31% gain in Playboy Television's domestic net sales in the fiscal fourth quarter ended June 30, 1996, versus 4Q 1995.

Playboy TV domestic revenues climbed to \$10.7 mil. from \$8.2 mil. For the fiscal year ended June 30, 1996, sales increased 36% to \$39.3 mil. from \$28.9 mil. in FY '95.

What a difference a year makes: The satellite market's share of total Playboy TV domestic revenues jumped from 35% in FY '95 to 55% in 4Q '96. Meanwhile, cable PPV revenue share tumbled from 41% to 30% and cable monthly subscriptions from 24% to 15% (see table below).

PLAYBOY TELEVISION DOMESTIC NET REVENUES (\$ in mil.)

	--4th Qtr. ended June 30--				----Year ended June 30----			
	--Revenue--		% of Total		---Revenue--		% of Total	
	1995	1996	1995	1996	1995	1996	1995	1996
Cable PPV	\$3.3	\$ 3.2	40%	30%	\$11.9	\$14.3	41%	36%
Cable mo. subscr.	1.7	1.6	21	15	7.0	6.9	24	18
Satellite/other	3.2	5.9	39	55	10.0	18.1	35	46
Total	\$8.2	\$10.7	100%	100%	\$28.9	\$39.3	100%	100%

© 1996 Paul Kagan Assoc., Inc. analysis from co. data. All rights reserved.

At June 30, 1996, Playboy TV was available in 11.3 mil. U.S. cable-addressable households, of which 3.9 mil. (35%) had access to the service 24 hours/day. The 11.3 mil. total grew 7% from 10.6 mil. at June 30, 1995.

Playboy TV monthly cable subscriptions headed the other way--declining 5% from 201K at June 30, 1995 to 192K at June 30, 1996.

One-year-old PPV channel AdultTVision netted \$575K in 4Q '96 revenues and \$1.9 mil. for FY '96.

On July 23, Playboy and Showtime followed their *Women* licensing pact with another deal. Playboy obtained international distribution rights to 48 completed episodes and 18 newly ordered installments of *Red Shoe Diaries*, Zalman King's erotic series that airs late night on Showtime.

Playboy, Showtime and Zalman King Entertainment will co-finance the 18 new episodes, which will continue to run on Showtime domestically.

GRAFF'S STRUGGLES CONTINUE

Playboy TV's adult PPV counterpart, Graff Pay-Per-View, reported lower revenues and operating income for the second quarter ended June 30, 1996.

Revenues slumped 23% to \$10.58 mil. from \$13.69 mil. in 2Q 1995, while operating income plummeted 79% to \$302K from \$1.42 mil.

Graff attributed the 2Q revenue decline to the same factors it blamed for its 1Q decline--continued weakness in C-band satellite market and the 4Q '95 curtailment of its CPV film production unit.

On a more positive note, Graff slashed operating expenses before depreciation of fixed assets and amortization of goodwill by 29%, from \$11.62 mil. in 2Q '95 to \$8.23 mil. in 2Q '96.

The Spice Networks (Spice + Adam & Eve) reach 16 mil. U.S. cable-addressable channel homes and 1.7 mil. DBS homes, up from 14.2 mil. and 700K, respectively, in the year-earlier period, according to Graff.

The company July 18 named Harlyn Enholm exec. vp and CFO.

FINANCIAL BRIEFS: "ADULT" PPV PROGRAMMERS

Graff Pay Per View announced May 15 sharply lower revenues but higher cash flow for the first quarter ended March 31, 1996, versus 1Q 1995.

Revenues slumped 22% to \$10.1 mil. from \$13 mil. while cash flow rose 25% from \$1.6 mil. to \$2 mil. Cash flow margin climbed from 12.3% in 1Q '95 to 19.8% in 1Q '96.

Graff attributed the revenue decline to lower revenues in the C-band satellite dish market and discontinuation of a TV production unit.

"The C-band dish market was a big cash flow provider until last year, when hardcore adult programming from Canada started to impact us," Graff chmn. and CEO Roger Faherty said in a May 15 conference call.

The company said it has achieved a 30% reduction in selling, general and administrative expenses, primarily associated with the elimination of non-core businesses. For instance, it has eliminated obligations to fund the development of Cable Video Store, TeleSelect and American Gaming Network.

In the conference call, Graff execs called the 1Q a "restructuring phase" and the current 2Q a "consolidation phase." The 3Q emphasis will be on implementing a new business plan--focusing on the core "adult" PPV business--and the 4Q goal will be to exploit opportunities, especially overseas.

Soaring DBS revenue was a highlight for Playboy Entertainment Group, which broke out financial data for its domestic pay television unit.

Playboy TV satellite and other revenues surged 80% in the fiscal third quarter ended March 31, 1996, to 44% of total domestic pay TV revenues--up from 35% of the total in the 3Q of fiscal '95 (see below).

PLAYBOY DOMESTIC PAY TV REVENUES

	---3Q ended Mar. 31---			Nine mos. ended Mar. 31		
	1995	1996	% Chg.	1995	1996	% Chg.
Playboy TV PPV	\$3.1	\$ 3.8	24%	\$ 8.7	\$11.2	29%
Playboy TV mo. subscrip.	1.7	1.7	0	5.2	5.2	0
Playboy TV satellite	2.6	4.7	80	6.9	12.2	78
AdultTVision	--	0.5	--	--	1.3	--
Total	\$7.4	\$10.7	44%	\$20.8	\$29.9	44%

© 1996 Paul Kagan Associates, Inc. from company data. All rights reserved.

The company credited the satellite gains to a 166% increase in DIRECTV subs and a change to 24-hour Playboy TV programming in August 1995, plus the launch of the service on PrimeStar in the 4Q of fiscal '95.

Cable growth has been slower. At March 31, 1996, Playboy TV was available to 11.3 mil. cable-addressable homes, up 9% from March 31, 1995. Among this base, 3.6 mil. homes could access Playboy TV 24 hours a day.

Playboy TV was available to 15.9 mil. cable and satellite households, including 378K monthly subscribers, at March 31, 1996.

The company said "going forward" rules announced by the FCC in November 1994, which provided cable operators with incentives to add basic services, have negatively impacted Playboy TV's growth.

So have channel-capacity-consuming provisions regarding "must carry," "retransmission consent" and "leased access," Playboy said. Also blamed: Continued delays in the availability of digital set-top converters.

(continued on next page)

MSO PAY TV/PPV STATS (continued from P. 7)

The nation's largest MSO counted 14.54 mil. domestic cable pay TV units March 31, 1996, up 5.6% from 13.76 mil. at year-end '95. Of the 771K net new pay units, 588K came via internal growth and 183K via acquisitions.

Cox Communications reported flat premium service revenues and sharply higher PPV revenues for the first quarter ended March 31, 1996.

On a pro forma basis (reflecting financial results as if Cox's Feb. 1, 1995 purchase of Times Mirror had occurred on Jan. 1, 1995), gross premium service revenues slipped 1% to \$47.6 mil. from \$47.9 mil. in 1Q '95.

Cox said the decline was mainly caused by a decrease in the average number of premium units during the first part of 1Q '96. In February 1996, Cox launched a two-for-one premium channel promotion.

Meanwhile, the MSO's PPV revenues leaped 50% to \$12.9 mil. from \$8.6 mil. in 1Q '95, on a pro forma basis. The primary catalysts were the Tyson/Bruno fight and increased PPV movie orders.

Premium service units totaled 1.9 mil. at March 31, 1995, representing 57.6% penetration of 3.3 mil. basic subscribers.

Against an estimated 1.864 mil. average units in 1Q '96, the \$47.6 mil. in 1Q premium service revenues imply the average unit grossed \$25.53 for the quarter, or \$8.51 per month.

FINANCIAL BRIEFS: PAY TV PROGRAMMERS

Viacom broke out financial information for the Showtime Networks division, which includes Showtime, The Movie Channel and Flix:

	----1Q ended Mar. 31----			----Year ended Dec. 31----		
	1995	1996	% Gain	1994	1995	% Gain
Revenues (mil.)	\$148.3	\$162.1	9.3%	\$589.2	\$622.1	5.6%
Cash flow (mil.)	14.6	20.6	41.1	52.6	75.8	44.1
C.F. margin	9.8%	12.7%	---	8.9%	12.2%	---

© 1996 Paul Kagan Associates, Inc. from company data. All rights reserved.

Viacom said Showtime/TMC/Flix subscribers (including DBS subs) rose 10% from 13.7 mil. at March 31, 1995, to 15.1 mil. at March 31, 1996.

Revenue per sub per month works out to \$3.60 against an estimated 15 mil. average 1Q '96 subs, off slightly from \$3.63 against an estimated 13.6 mil. average 1Q '95 subs.

Time Warner separated financial data for the HBO division, which includes HBO and Cinemax:

	----1Q ended Mar. 31----			---Year ended Dec. 31----		
	1995	1996	% Gain	1994	1995	% Gain
Revenues (mil.)	\$390	\$419	7.4%	\$1,513	\$1,607	6.2%
Cash flow (mil.)	71	81	14.1	257	293	14.0
C.F. margin	18.2%	19.3%	---	17.0%	18.2%	---

© 1996 Paul Kagan Associates, Inc. from company data. All rights reserved.

Time Warner said subscriber growth was strong at both HBO and Cinemax, but didn't specify counts for 1Q '95 nor 1Q '96. HBO/Cinemax subs increased 10% from 27.0 mil. at year-end '94 to 29.7 mil. at year-end '95.

PAY TV ECONOMICS (continued from P. 2)

		1984	1985	1986	1987	1988	1989	1990
SALES/GEN./MKT./ADMIN. EXPENSES								
HBO/Cinemax	(mil.)\$	198	271	275	270	280	287	300
Showtime/Movie Channel	(mil.)\$	98	111	108	110	135	142	152
The Disney Channel	(mil.)\$	20	26	29	33	35	37	40
The Playboy Channel	(mil.)\$	6	6	7	9	13	10	13
Total	(mil.)\$	322	414	419	422	463	476	504
CASH FLOW								
HBO/Cinemax	(mil.)\$	113.0	115.0	100.0	115.0	123.0	135.4	144.4
Showtime/Movie Channel	(mil.)\$	33.0	30.0	16.0	10.0	(4.0)	2.3	12.1
The Disney Channel	(mil.)\$	(10.0)	2.0	19.7	28.4	39.8	43.9	51.7
The Playboy Channel	(mil.)\$	(1.5)	(0.2)	(3.7)	0.7	(4.2)	0.0	(0.9)
Total	(mil.)\$	134.5	146.8	132.0	154.1	154.6	181.6	207.4
LICENSE FEES/SUB/MONTH								
HBO/Cinemax	\$	5.87	3.87	4.03	3.96	3.89	3.86	3.85
Showtime/Movie Channel	\$	5.48	3.51	3.58	3.64	3.75	3.79	3.80
The Disney Channel	\$	5.29	3.55	3.50	3.50	3.50	3.50	3.50
The Playboy Channel	\$	3.57	2.47	2.69	3.54	3.58	3.79	3.45
Total	\$	5.67	3.71	3.83	3.82	3.81	3.80	3.79
CASH FLOW MARGIN								
HBO/Cinemax	%	14.1	13.7	11.0	12.1	12.1	12.5	12.7
Showtime/Movie Channel	%	9.7	8.4	4.5	2.8	(1.0)	0.5	2.4
The Disney Channel	%	(20.0)	2.3	16.6	19.4	23.5	23.0	24.4
The Playboy Channel	%	(7.5)	(0.9)	(17.6)	2.9	(19.9)	0.0	(3.7)
Total	%	11.1	11.2	9.4	10.4	9.6	10.4	11.1
PROGRAMMING % REVENUE								
HBO/Cinemax	%	61.1	54.0	58.6	59.5	60.3	61.0	61.0
Showtime/Movie Channel	%	61.5	60.4	65.0	66.5	67.3	68.0	67.0
The Disney Channel	%	80.0	68.2	59.0	58.1	55.9	57.6	56.7
The Playboy Channel	%	80.0	77.3	85.7	58.3	56.9	50.0	52.9
Total	%	62.3	57.1	60.6	61.0	61.5	62.3	62.0
SUBSCRIBER GROWTH								
HBO/Cinemax	%	10.7	2.1	5.1	8.6	8.9	6.0	5.0
Showtime/Movie Channel	%	20.6	(0.8)	(4.3)	3.8	12.5	11.0	9.0
The Disney Channel	%	131.7	50.3	27.8	19.9	12.8	12.0	10.0
The Playboy Channel	%	31.0	(13.2)	(11.6)	(14.8)	(11.0)	(10.0)	85.0
Total	%	17.5	3.6	4.0	8.0	9.9	7.8	7.5
REVENUE GROWTH								
HBO/Cinemax	%	---	4.9	7.9	5.1	6.8	6.6	5.2
Showtime/Movie Channel	%	---	4.7	(0.6)	1.1	11.7	12.8	10.2
The Disney Channel	%	---	76.0	34.8	23.4	16.0	12.4	10.9
The Playboy Channel	%	---	10.0	(4.5)	14.3	(12.1)	(5.2)	22.9
Total	%	---	7.9	7.2	5.8	8.6	8.6	7.3

Notes: Showtime/TMC estimates exclude revenues and expenses associated with Viewer's Choice and Showtime Event TV and profits from sale of series such as Gary Shandling. Playboy Channel figures are as of fiscal year ending 6/30.

PAY PROFITS: EXCLUSIVITY & MARKETING TAKE THEIR TOLL

Pay service unit growth and revenues took off in 1988 and have continued strong into 1989, but the cost of those gains wiped out profits at Showtime and Playboy and stunted HBO's cash flow growth.

Heavy marketing and the extra cost of exclusive deals took their toll on expenses. And that pain won't go away, given the length of the new deals.

There's no help at the wholesale level either. The avg. license fee/sub/mo. has been flat for the past four years and will remain so through 1990.

Much of the growth has come from heavy discounting of second pay services. This produces market share gains, but our analysis reveals that the new subs contribute little to bottom-line profits.

Recent moves suggest the services are battenning down the hatches for long-term survival in a slower-growth environment. The move to more internal production--emphasizing backend recoupment--is just one example (see P. 1).

The picture that emerges is one of a maturing but hotly competitive industry seeking its post-home video niche while locked into rigid deals with studios and affiliates. It doesn't leave much room for maneuvering.

One surprise: The Disney Channel does not break out separate pay numbers, but our estimates suggest it may be the healthiest of the services, thanks in part to its access to the rich Disney film vaults.

We assume The Playboy Channel will relaunch successfully as Nightlife in late 1989 and get halfway to breakeven (1 mil. subs) by December 1990.

		1984	1985	1986	1987	1988	1989	1990
YEAR-END SUBSCRIBERS								
HBO/Cinemax	(mil.)	17.89	18.26	19.20	20.85	22.70	24.06	25.27
Showtime/Movie Channel	(mil.)	8.48	8.42	8.05	8.36	9.40	10.43	11.37
The Disney Channel	(mil.)	1.65	2.48	3.17	3.80	4.29	4.80	5.28
The Playboy Channel	(mil.)	0.80	0.69	0.61	0.52	0.46	0.42	0.77
<i>Total</i>	(mil.)	28.82	29.85	31.03	33.53	36.85	39.71	42.69
AVERAGE SUBSCRIBERS								
HBO/Cinemax	(mil.)	11.35	18.08	18.73	20.03	21.78	23.38	24.66
Showtime/Movie Channel	(mil.)	5.17	8.45	8.23	8.21	8.88	9.92	10.90
The Disney Channel	(mil.)	0.79	2.07	2.83	3.49	4.04	4.54	5.04
The Playboy Channel	(mil.)	0.47	0.74	0.65	0.57	0.49	0.44	0.59
<i>Total</i>	(mil.)	17.78	29.33	30.44	32.28	35.19	38.28	41.20
REVENUE								
HBO/Cinemax	(mil.)\$	800	839	905	951	1,016	1,083	1,139
Showtime/Movie Channel	(mil.)\$	340	356	354	358	400	451	497
The Disney Channel	(mil.)\$	50	88	119	146	170	191	212
The Playboy Channel	(mil.)\$	20	22	21	24	21	20	25
<i>Total</i>	(mil.)\$	1,210	1,305	1,399	1,479	1,607	1,745	1,873
PROGRAMMING EXPENSES								
HBO/Cinemax	(mil.)\$	489	453	530	566	613	661	695
Showtime/Movie Channel	(mil.)\$	209	215	230	238	269	307	333
The Disney Channel	(mil.)\$	40	60	70	85	95	110	120
The Playboy Channel	(mil.)\$	16	17	18	14	12	10	13
<i>Total</i>	(mil.)\$	754	745	848	903	989	1,087	1,161

© 1989 THE PAY TV NEWSLETTER. Estimates of Paul Kagan Associates, Inc.

(continued on next page)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on January 15, 1997, a true copy of the foregoing DMX Inc.'s Reply to RIAA's Opposition to DMX Inc.'s Motion to Compel Responses to Follow-Up Requests (and exhibits) was served in a sealed envelope, by hand, except as noted below, upon the following:


David E. Leibowitz
Linda R. Bocchi
Recording Industry
Association of America
1020 Nineteenth St., N.W.
Suite 200
Washington, D.C.

Jon Praed
Latham & Watkins
1001 Pennsylvania Ave., NW
Suite 1300
Washington, D.C. 20004-2505

George Vradenburg III
Latham & Watkins
633 West Fifth Street
Suite 4000
Los Angeles, CA 90071
(by Federal Express)

Robert A. Garrett
Steven M. Marks
Arnold & Porter
555 Twelfth Street, N.W.
Washington, D.C. 20004-1202

Bruce D. Sokler
Fernando R. Laguarda
Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo, P.C.
701 Pennsylvania Ave., NW
Suite 900
Washington, D.C. 20004


Joni Lipovitz